LEKWA TEEMANE LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	Provision of municipal services in terms of the Municipal Finance Management Act No. 56 of 2003 and Municipal Systems Act No. 32 of 2000.
Councillors	
Mayor	Clr. K. Palagangwe
Councillors	Clr. M. Majikela
	Clr. A. Buys
	Clr. T. Mokgosi
	Clr. L.M. Segola
	Clr. P. Modise
	Clr. A. N. Ngezi
	Clr. G. Pencil
	Clr. M. A. Molete
	Clr. J. Joseph
	Clr. D. J. Muller
	Clr. M. I. Mabala
	Clr. I. M. Snyman
	Clr . J.M Dabampe (elected 10th August 2016)
	Clr.K.L. Duiker (elected 10th August 2016)
	Clr.S. Fortuin (elected 10th of August 2016)
	Clr.T. Gerber (elected 10th August 2016)
	Clr.S.K Majahe (elected 10th August 2016)
	Clr. M.M. Makame (elected 10th of August 2016)
	Clr. M.W Mseswa (elected 10th of August 2016)
	Clr.M.M. Pilane (elected 10th of August 2016)
	Clr.L.W. Tshweu (elected 10th of August 2016)
	Clr.E. Van Biljon (elected 10th of August 2016)
Grading of local authority	Grade 3
Accounting Officer	Mr Ndoda Mgengo
Chief Finance Officer (CFO)	Miss M P Polori
Registered office	Cnr Robyn & Dirkie Uys Street Christiana 2680
Business address	Cnr Robyn & Dirkie Uys Street Christiana 2680
Postal address	P. O. Box 13 Christiana 2680
Bankers	Absa Bank
Auditors	Auditor-General of South Africa Registered Auditors

General Information

Attorneys	Lizel Venter Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the Lekwa-Teemane Local Municipality's Council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
FMG	Finance Management Grant
MSIG	Municipal System Improvement Grant
CoGTA	Department of Co-operative Governance & Traditional Affairs

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on five services that generate revenue namely rates, water, electricity, refuse and sanitation. It also gets equitable share from the government, which constitutes about 20% of its total income. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality's operations.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their will be presented based on their review.

The annual financial statements set out on pages 8 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016.

Accounting Officer
Mr Ndoda Mgengo

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in provision of municipal services in terms of the Municipal Finance Management Act no.56 of 2003 and Municipal Systems Act No.32 of 2000. and operates principally in South Africa.

The municipality's contribution towards total income increased marginally as shown in the analysis below.

Proportion of income generated/raised

2016

Type of Income	Proportion of contribution to income	Amount
Service charges	48 %	117 401 046
Property rates	5 %	11 987 738
Grants and Subsidies	26 %	62 865 106
Traffic fines	7 %	18 985 200
Rental of facilities	1 %	830 968
Other income	12 %	30 170 024

2015

Type of Income	Proportion of contribution to income	Amount
Service charges	45 %	111 037 794
Property rates	4 %	10 113 392
Grants and subsidies	24 %	60 838 879
Traffic fines	11 %	30 223 400
Rental of facilities	1 %	785 372
Other income	14 %	35 099 056

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had a deficits of R(26 305 553) (2014: R50,196,653) and current liabilities exceeded current assets by R230,765,880 (2013: R201,101,268). The municipality has a going concern challenge. However the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. Thus, the municipality's ability to continue as a going concern is dependent on the fact that, inter alia, the accounting officer continue to procure both internal and external funding for the ongoing operations for the municipality.

3. Subsequent events

- The term for the current Councillors ended on 9th of August 2016 in terms of section 26 of the Municipal Structures Act.
- The contract for the Technical Services Director was terminated with effect from 19 July 2016.

4. Accounting Officer & Other Relevant Officials's interest in contracts

The municipality has a policy relating to declaration of interest in contracts and other related transactions. This was adhered to in that relevant officials with interests in SCM related transactions declared (both potential and existing) declared their interests.

5. Accounting policies

The annual financial statements were prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury, including any interpretation and directives.

Accounting Officer's Report

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a regular basis.

Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of him by the Remunerations of Public Office Bearers Act No. 20 of 1998.

Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 56 Managers) of the municipality.

Audit and risk committee

The Chairperson of the audit committee is an independent audit committee member. The committee met on a regular basis during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Dr. Ruth Mompati District Municipality must appoint members of the shared Audit Committee. Thus, more information with regards to the composition of the shared audit committee, its operations and sub-committees should be covered in the district municipality's' annual financial statements.

Internal audit

The municipality has a shared internal audit function, based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003, as it is a permitted arrangement.

Accounting Officer's Report

7. Interest in controlled entities

Name of controlled entity	Country of incorporation if not the RSA	Net Assets
Lekwa Teemane Development Agency (Pty) Ltd		341 071

The controlled entity is currently in the Establishment Phase. Major operations will commence as soon as the Establishment Phase is complete. However, engagements with the various stakeholders (for various transactions relating to the Agency's operations) are taking place.

Details of the municipality's investment in controlled entity are set out in note 7.

8. Bankers

The municipality's bankers did not change during the current year.

9. Auditors

Auditor-General of South Africa will continue to audit the books of the municipality as it is a Constitutional Mandate for them to do so.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
ASSETS			
Current Assets			
Inventories	12	99 131	867 118
Other financial assets	8	64 633	70 304
Traffic fines receivable	9	3 717 160	3 439 391
Trade and other receivables (exchange transactions)	13	775 559	217 389
Receivables from non-exchange transactions	14	1 100 800	1 164 546
VAT receivable	15	-	5 157 917
Consumer debtors (exchange transactions)	16	21 209 919	18 698 637
Money Market Investments	11	617 517	1 719 326
		27 584 719	**31 334 628**
Non-Current Assets			
Investment Property	3	26 321 836	25 872 289
Property Plant and Equipment	4	554 654 557	568 314 013
Heritage Assets	5	170 000	170 000
Intangible assets	6	363 688	663 329
Investments in controlled entities	7	20 100	20 100
Long Term Debtors		5 110 954	2 085 525
		586 641 135	**597 125 256**
TOTAL ASSETS		**614 225 854**	**628 459 884**
LIABILITIES			
Current Liabilities			
Other Interest & Non-Interest Bearing Liabilities	18	5 719 415	5 719 415
Finance lease obligation	19	1 431 373	700 530
Trade and other payables (exchange transaction)	22	241 720 914	216 527 813
VAT payable		6 012 835	-
Consumer deposits	24	1 183 074	1 101 157
Employee benefit obligation	10	765 000	761 000
Unspent conditional grants	20	600 000	6 761 678
Provisions	21	357 000	475 000
Bank overdraft	17	278 014	389 303
		258 067 625	**232 435 896**
Non-Current Liabilities			
Finance lease obligation	19	943 716	2 375 090
Employee benefit obligation	10	23 941 000	21 983 000
Provisions	21	10 378 201	9 922 829
		35 262 917	**34 280 919**
TOTAL LIABILITIES		**293 330 542**	**266 716 815**
NET ASSETS		**320 895 312**	**361 743 069**
NET ASSETS			
Accumulated surplus		320 895 312	361 743 069

* See Note 2 & 46

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	27	117 401 046	111 037 794
Rental of facilities and equipment		830 968	785 372
Licences and Permits		1 610 761	1 665 939
Interest on debtors		24 550 613	23 312 642
Fair Value Adjustments		443 876	2 358 832
Sundry Income		1 950 552	2 469 962
Insurance Claims		118 109	3 662 551
Interest received - investment	35	299 414	277 621
Total revenue from exchange transactions		**147 205 339**	**145 570 713**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	11 987 738	10 113 392
Transfer revenue			
Government grants & subsidies	28	62 582 136	60 838 878
Traffic Fines		18 985 200	30 223 400
Donations Received		1 196 700	1 351 509
Total revenue from non-exchange transactions		**94 751 774**	**102 527 179**
Total revenue	25	**241 957 113**	**248 097 892**
Expenditure			
Employee related costs	32	(48 254 354)	(48 245 391)
Remuneration of councillors	33	(4 394 496)	(3 920 828)
Depreciation and amortisation	36	(28 926 765)	(29 085 224)
Finance costs	37	(8 926 686)	(6 981 299)
Debt Impairment	34	(55 741 604)	(95 972 910)
Sundry expenses		-	(9 080 386)
Repairs and maintenance		(3 134 206)	(5 170 261)
Bulk purchases	40	(63 829 429)	(54 846 225)
Contracted services	39	(6 086 216)	(6 805 759)
Loss on disposal		(4 946 135)	-
General Expenses	30	(44 022 775)	(38 186 262)
Total expenditure		**(268 262 666)**	**(298 294 545)**
Operating deficit	31	**(26 305 553)**	**(50 196 653)**
Deficit for the year		**(26 305 553)**	**(50 196 653)**

* See Note 2 & 46

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	495 113 996	495 113 996
Adjustments		
Prior year adjustments (Note 46)	(83 174 274)	(83 174 274)
Restated Balance at 01 July 2014	**411 939 722**	**411 939 722**
Changes in net assets		
Surplus for the year	(50 196 653)	(50 196 653)
Total changes	(50 196 653)	(50 196 653)
Restated Balance at 01 July 2015	**361 743 069**	**361 743 069**
Changes in net assets		
Other Adjustments(note 46)	(14 542 204)	(14 542 204)
Net income (losses) recognised directly in net assets	(14 542 204)	(14 542 204)
Surplus for the year	(26 305 553)	(26 305 553)
Total recognised income and expenses for the year	(40 847 757)	(40 847 757)
Total changes	(40 847 757)	(40 847 757)
Balance at 30 June 2016	**320 895 312**	**320 895 312**

Note(s)

Correction of Previous Years Errors

The adjustment mainly relates to Property Plant and Equipment as a result of previously recognised assets that could not be verified at year end see note 46 for more detail.

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Receipts from customers		158 654 134	125 391 228
Grants		56 964 000	62 234 955
Investment Income		299 414	277 621
		215 917 548	187 903 804
Payments			
Employee costs		(50 686 850)	(51 930 387)
Suppliers		(136 683 294)	(106 882 169)
Finance costs		(8 926 686)	(6 981 299)
		(196 296 830)	(165 793 855)
Net cash flows from operating activities	41	**19 620 718**	**22 109 949**
Cash flows from investing activities			
Purchase of property plant and equipment	4	(19 898 194)	(22 564 210)
Purchase of other intangible assets	6	(15 609)	(35 999)
Proceeds from sale of money market investments		1 104 905	278 486
Repayment of Loan		-	(4 075 384)
Net cash flows from investing activities		**(18 808 898)**	**(26 397 107)**
Cash flows from financing activities			
Finance lease payments		(700 531)	2 162 579
Net increase/(decrease) in cash and cash equivalents		**111 289**	**(2 124 579)**
Cash and cash equivalents at the beginning of the year		(389 303)	1 735 276
Cash and cash equivalents at the end of the year	17	**(278 014)**	**(389 303)**

* See Note 2 & 46

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	122 723 520	-	**122 723 520**	117 401 046	**(5 322 474)**	This was mainly casused by the fact the budgeted consumption units were slightly lower than the actual units consumed.
Rental of facilities and equipment	520 422	-	**520 422**	830 968	**310 546**	Collected amounts were greater than the budgeted amounts due to increased hall bookings
Administration and management fees received	1 969 970	-	**1 969 970**	1 610 761	**(359 209)**	The variance was mainly caused by the fact that the licencing office upgrade and operation of the new testing centre were delayed due to logistical reasons
Interest on Debtors	25 245 000	-	**25 245 000**	24 550 613	**(694 387)**	Difference is due to an increase in customers not settling their debts on time
Fair Value Adjustments	1 500 000	-	**1 500 000**	443 876	**(1 056 124)**	The values of the investment property did not increase as much as initially anticipated due to the subdued property pricesy
Sundry Income	5 662 712	-	**5 662 712**	1 950 552	**(3 712 160)**	Sundry activities were reduced to focus on service delivery

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Insurance Claims	134 644	-	**134 644**	118 109	**(16 535)**	Acceptable variance
Interest received - investment	27 681	-	**27 681**	299 414	**271 733**	Diffrernce is due to improved cash management and increases in fines collected
Total revenue from exchange transactions	**157 783 949**	**-**	**157 783 949**	**147 205 339**	**(10 578 610)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18 000 000	-	**18 000 000**	11 987 738	**(6 012 262)**	Difference is due to the rebate given to farmers
Transfer revenue						
Government grants & subsidies	68 969 401	-	**68 969 401**	62 582 136	**(6 387 265)**	Difference due to withdrawal of the District operational grant for 8 million rand
Fines, Penalties and Forfeits	32 500 500	-	**32 500 500**	18 985 200	**(13 515 300)**	Collected fines were less than anticipated due to increased public awareness of the cameras
Other transfer revenue 2	-	-	**-**	1 196 700	**1 196 700**	
Total revenue from non-exchange transactions	**119 469 901**	**-**	**119 469 901**	**94 751 774**	**(24 718 127)**	
Total revenue	**277 253 850**	**-**	**277 253 850**	**241 957 113**	**(35 296 737)**	
Expenditure						
Personnel	(57 309 342)	-	**(57 309 342)**	(48 254 354)	**9 054 988**	A number of the budgeted positions were not filled due to the cash flow problems.
Remuneration of councillors	(4 400 000)	-	**(4 400 000)**	(4 394 496)	**5 504**	Acceptable variance.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Depreciation and amortisation	(50 507 668)	-	**(50 507 668)**	(28 926 765)	**21 580 903**	Difference is due to old assets that are still in good working condition though they are becoming fully depreciated
Finance costs	(1 520 000)	-	**(1 520 000)**	(8 926 686)	**(7 406 686)**	Variance is due to leases that finished before the end of the year
Bad debts written off	(64 600 000)	-	**(64 600 000)**	(55 741 604)	**8 858 396**	Acceptable variance
Collection costs	(8 363)	-	**(8 363)**	-	**8 363**	Acceptable variance
Repairs and maintenance	(5 781 217)	-	**(5 781 217)**	(3 134 206)	**2 647 011**	Regular replacement of pumps as well as scheduled servicing of assets in the prior years has reduced the maintenance of assets
Bulk purchases	(71 580 156)	-	**(71 580 156)**	(63 829 429)	**7 750 727**	The anticipated purchases were significantly less than anticipated due to monitoring of distribution losses
Contracted Services	(12 361 793)	-	**(12 361 793)**	(6 086 216)	**6 275 577**	Improved contract management and cashflow management
Cost of housing sold	-	-	**-**	(4 946 135)	**(4 946 135)**	Most of the sampling was done in the prior years and this was used as a basis of the budget amount

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
General Expenses	(53 016 498)	-	**(53 016 498)**	(44 022 775)	**8 993 723**	Difference is due to improved cost management and cash management
Total expenditure	**(321 085 037)**	**-**	**(321 085 037)**	**(268 262 666)**	**52 822 371**	
Deficit before taxation	**(43 831 187)**	**-**	**(43 831 187)**	**(26 305 553)**	**17 525 634**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(43 831 187)**	**-**	**(43 831 187)**	**(26 305 553)**	**17 525 634**	

Appropriation Statement

Figures in Rand

	Original budget		Final adjustments budget			Final budget	Actual outcome		Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2016											
Financial Performance											
Property rates	18 000 000	-	18 000 000	-		18 000 000	11 987 738		(6 012 262)	67 %	67 %
Service charges	122 723 520	-	122 723 520	-		122 723 520	117 401 046		(5 322 474)	96 %	96 %
Investment revenue	27 681	-	27 681	-		27 681	299 414		271 733	1 082 %	1 082 %
Transfers recognised - operational	50 291 645	-	50 291 645	-		50 291 645	44 551 034		(5 740 611)	89 %	89 %
Other own revenue	67 398 604	-	67 398 604	-		67 398 604	49 568 670		(17 829 934)	74 %	74 %
Total revenue (excluding capital transfers and contributions)	**258 441 450**	**-**	**258 441 450**	**-**		**258 441 450**	**223 807 902**		**(34 633 548)**	**87 %**	**87 %**
Employee costs	(57 309 342)	-	(57 309 342)	-	-	(57 309 342)	(48 254 354)	-	9 054 988	84 %	84 %
Remuneration of councillors	(4 400 000)	-	(4 400 000)	-	-	(4 400 000)	(4 394 496)	-	5 504	100 %	100 %
Debt impairment	(64 600 000)	-	(64 600 000)			(64 600 000)	(55 741 604)	-	8 858 396	86 %	86 %
Depreciation and asset impairment	(50 507 668)	-	(50 507 668)			(50 507 668)	(28 926 765)	-	21 580 903	57 %	57 %
Finance charges	(1 520 000)	-	(1 520 000)	-	-	(1 520 000)	(8 926 686)	-	(7 406 686)	587 %	587 %
Materials and bulk purchases	(71 580 156)	-	(71 580 156)	-	-	(71 580 156)	(63 829 429)	-	7 750 727	89 %	89 %
Other expenditure	(71 167 871)	-	(71 167 871)	-	-	(71 167 871)	(58 189 332)	-	12 978 539	82 %	82 %
Total expenditure	**(321 085 037)**	**-**	**(321 085 037)**	**-**	**-**	**(321 085 037)**	**(268 262 666)**	**-**	**52 822 371**	**84 %**	**84 %**
Surplus/(Deficit)	**(62 643 587)**	**-**	**(62 643 587)**	**-**		**(62 643 587)**	**(44 454 764)**		**18 188 823**	**71 %**	**71 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	18 812 400	-	18 812 400	-		18 812 400	18 149 211		(663 189)	96 %	96 %
Surplus (Deficit) after capital transfers and contributions	**(43 831 187)**	**-**	**(43 831 187)**	**-**		**(43 831 187)**	**(26 305 553)**		**17 525 634**	**60 %**	**60 %**
Surplus/(Deficit) for the year	**(43 831 187)**	**-**	**(43 831 187)**	**-**		**(43 831 187)**	**(26 305 553)**		**17 525 634**	**60 %**	**60 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Statements and Interpretations Not Yet Effective

GRAP Standards

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

- GRAP 2 - Service concession arrangements (grantor;
- GRAP 20 - Related Party Disclosures.
- GRAP 108 - Statutory receivables;
- GRAP 109 - Accounting by Principals and Agents;
- .

The foregoing standards are not yet effective as the Minister of Finance has not yet determined the effective dates. .

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

In the process of applying the municipality's policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements and these are consistent with the previous period:

Impairment of trade and other receivables

The municipality assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether the observable data indicate a measurable decrease in the estimated future cash flows from a financial asset. The calculation is primarily based on the collection rate of the amount due per individual debtor, as required by GRAP Standards.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Available-for-sale financial assets

The municipality follows the guidance of GRAP Standards to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade and other receivables are assumed to approximate their fair values.

Impairment testing

The municipality tests the carrying value of assets for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply, demand, together with economic factors such as interest and inflation rates.

Provisions and contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

Post retirement medical aid benefit

The cost of post retirement medical aid benefit is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Additional information is disclosed in Note 10.

Effective interest rate

The municipality uses the prime interest rate plus a reasonable adjustment to discount future cash flows, where necessary.

In addition to this, where Investment Certificates were not received, management estimated the amount of interest due or earned on the investment, based on the available data.

Classification as investment property

The municipality regularly reviews its property portfolio and determine which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and the Carrying Value of Items of Property, Plant and Equipment

The estimation of useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements and/or required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of the useful lives, and what their condition will be at that time.

Further, when the municipality fully complied with GRAP 17, to determine the value of the assets where the cost amounts were not available, management used the current market values of similar assets and adjusted that using condition assessment. Condition assessment was based on managements' judgement.

Water Inventory and Cost of Purifying Water

Water Inventory: The amount of water in the municipality's reservoirs is based on management judgement. Management make use of engineers to perform these estimates.

Cost of Purifying Water: This is also based on management judgement by reference to the market researches available, adjusted by inflation rates (CPI), if the research was conducted more than a year ago. Reference is also made to Water Processing Bodies.

1.5 Investment Property

Investment Property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment Property is recognised as an asset when and only when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment Property is initially measured at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.5 Investment Property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value mode.

When classification is difficult, further criteria is used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, depending on the nature of the scenario

1.6 Property Plant and Equipment

Property Plant and Equipment are tangible items (including infrastructure assets) that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset If and only if:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property Plant and Equipment is initially measured at cost.

The cost of an item of property plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. For asset that were acquired at the latter of 30 June 2012 and adoption of GRAP Standards, cost was based on the Net Replacement Cost of the assets as at 30 June 2012, when the GRAP Standards were adopted for the first time.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Accounting Policies

1.6 Property Plant and Equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

Property Plant and Equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	15-40 years
Plant and machinery	3-15 years
Furniture and fittings	5-10 years
Motor vehicles	5-7 years
Office equipment	3-10 years
Computer equipment	3-5 years
Infrastructure	
• Electricity	15-70 years
• Roads, Pavement, Bridges and Storm Water	10-80 years
• Sanitation	6-11 years
Community	
• Graveyard Site	15-40 years
• Recreational facilities	10-40 years
• Sport facilities	15-50 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.6 Property Plant and Equipment (continued)

The gain or loss arising from the derecognition of an item of property plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property plant and equipment. The estimated cost to rehabilitate the landfill sites is performed by qualified engineers, using various assumptions. A provision is then made using those costs. The related cost can either be measured at cost or using the revaluation model.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Accounting Policies

1.8 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.9 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.10 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

1.11 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterpart has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.11 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and Other Receivables (exchange and non-exchange)	Financial asset measured at amortised cost
Cash and Cash Equivalents	Financial asset measured at amortised cost
Money Market Instruments	Financial asset measured at amortised cost
Other Financial Assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and Other Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft and borrowings	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value.

Accounting Policies

1.11 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost: If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.11 Financial instruments (continued)

Financial assets measured at cost: If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.11 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.11 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Finance leases - lessee

The municipality leases certain property, plant and equipment. Leases of property, plan and equipment where the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The municipality will not incur a foreign currency lease liability other than that allowed by the MFMA Act (Act 56 of 2003).

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.12 Leases (continued)

Operating leases - lessor

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Operating leases are those leases which do not fall within the scope of the above definition of finance leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

1.13 Inventories

Inventories, which consists of consumables, water and stands for sale, are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.13 Inventories (continued)

Stands for Sale, Water Inventory and Meters

The municipality changed its accounting policy for inventories in 2016. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 12. The transitional provision expires on .

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2016 and inventories has accordingly been recognised at provisional amounts, as disclosed in 12.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.14 Going Concern Assumptions

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Accounting Policies

1.14 Going Concern Assumptions (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.15 Impairment of Property, Plant and Equipment

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.15 Impairment of Property, Plant and Equipment (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.15 Impairment of Property, Plant and Equipment (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for any asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.16 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.17 Incomplete Construction Work (Work In Progress)

Incomplete construction work is stated at historical costs. Historical costs relates to accumulation of capital amounts incurred to the date of commission. Depreciation will only commence when the asset is available for use, after commissioning.

1.18 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:
- an municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.18 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the entity recognise the undercounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undercounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.18 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.18 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement medical aid benefit upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.19 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Accounting Policies

1.19 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditure expected to be incurred to settle the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

Long Service Award

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefits that employees have earned in return for their service in the current and prior periods less an amounts paid during the current period. The benefit is discounted to determine its present value.
e municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

1.20 Revenue from exchange transactions

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximated the consideration received or receivable.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts, returns and volume rebates.

Accounting Policies

1.20 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties, dividends , Service Charges, Prepaid Electricty & other income

Interest earned on investments is recognised on a time proportion basis that takes into account the effective yield on the investments. Interest earned on outstanding debtors is recognised on a time proportion basis.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimated consumption's are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as against or for revenue in the invoicing period. .

Income from agency services: Income from agency services is recognised on a monthly basis once the income collected/received on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. The inflow of resources from a non-exchange transaction shall be recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind are recognised as revenue and as an asset when the recognition criteria is met.

1.22 Value Added Tax

The municipality accounts for Value Added Tax (VAT) on a cash basis. The municipality is liable to account for VAT at the standard rate of 14% in terms of section 7(1)(a) of the VAT Act in respect of supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.23 Pre-paid electricty

Revenue from the sale of electricity using pre-paid meter cards is recognised based on consumption.

The consumption is determined on the following trend analysis:

- During the winter season (May, June, July and August), the municipality tend to sell more units as the temperatures will be generally low.
- The municipality calculates the average sales for the four months. The resultant average units are compared to the sales for May and August for reasonableness. If the average sales in units are within a reasonable range or threshold of the May and August sales, the average is deemed reasonable. If it is not within the reasonable range obtained for the two months, reasons for the significant variances are obtained and accounted for in appropriately, which may be in the form of an adjustment to the revenue for pre-paid electricity. Thus, exceptional items are adjusted for.
- The resultant reasonable average consumption rate is used as an estimate for the consumption of pre-paid electricity for the month of June. The actual units sold in June are then compared to the estimated consumption for June.

If the actual quantity sold is more than the estimated consumption for June, pre-paid electricity revenue sales for June is then based on the estimated consumption units and the excess is deferred to July of the ensuing period.

If the actual quantity sold in June is less than the estimated consumption for June, pre-paid electricity for June is then based on the actual units sold.

1.24 Finance income and expenses

Finance income is recognised on a time-proportion basis using the effective interest method. It is recognised as it accrues in the surplus or deficit for the year. Dividend income is also recognised in the surplus or deficit on the date the municipality has a right to receive payment, which in the case of quoted shares is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit and loss and impairment losses recognised on financial assets.

1.25 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.26 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification is disclosed.

Where accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

Accounting Policies

1.27 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division or permitted by the MFMA.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.28 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.29 Irregular expenditure

Irregular expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority, it it is treated as a receivable until it is written off as irrecoverable.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.30 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Accounting Policies

1.31 Internal reserves

1.32 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.33 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012-07-01 to 2013-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.34 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.35 Donations and contributions

Revenue from donations is recognised as revenue when: (1) it is probable that the economic benefits or services potential associated with the transaction will flow to the municipality, (2) the amount of revenue can be measured reliably, (3) any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

1.36 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened. The amounts vary per consumer and are approved by Council as part of the tariff structure.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as disclosed in the notes to the financial statements :

3. Investment Property

	2016			2015		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	26 321 836	-	26 321 836	25 872 289	-	25 872 289

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	25 872 289	449 547	26 321 836

Reconciliation of investment property - 2015

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	23 409 054	110 000	2 353 235	25 872 289

Pledged as security

No investment properties are pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the market values was 30 June 2016. The determination of the market values were performed by an independent valuer, DDP Valuers [a Professional Valuer, registered with the South African Council for the Property Valuers Professions]. DDP valuers is not connected to the municipality and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use. The process to determination of market values took into account the following assumptions, among other things, (a) selling prices of similar recent property sales in Christiana, (b) age and current condition of the buildings, (c) use of the building, (d) existing current lease agreement in place, (e) discount rate in line with the municipality estimated cost of borrowings and (f) any other key assumptions assumptions deemed necessary

There are no restrictions on the realisability of the investment property or the remittance of revenue generated by investment properties. Valuations were done by an independent sworn appraiser.

Amounts recognised in surplus and deficit for the year.

	2016	2015
Rental revenue from investment property	830 968	763 088
Fair value adjustment	449 547	2 353 235

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Property Plant and Equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	53 850 182	-	53 850 182	53 850 182	-	53 850 182
Buildings	14 930 983	(2 608 527)	12 322 456	14 959 521	(2 132 939)	12 826 582
Plant and Machinery	5 732 806	(2 871 516)	2 861 290	6 244 228	(2 445 531)	3 798 697
Furniture and fixtures	1 675 816	(849 810)	826 006	1 685 198	(724 238)	960 960
Motor vehicles	7 587 329	(4 645 473)	2 941 856	10 071 726	(7 545 301)	2 526 425
Office equipment	4 161 592	(2 647 466)	1 514 126	4 959 843	(2 319 278)	2 640 565
Computer equipment	1 481 928	(780 065)	701 863	1 633 740	(734 454)	899 286
Community	9 173 608	(1 567 042)	7 606 566	9 173 608	(1 214 537)	7 959 071
Electricity	108 536 380	(27 109 964)	81 426 416	103 168 098	(23 521 817)	79 646 281
Roads, Pavement, Bridges and Storm Water	502 079 547	(134 746 854)	367 332 693	505 695 436	(116 021 545)	389 673 891
Work In Progress	19 172 273	-	19 172 273	8 668 311	-	8 668 311
Landfill Sites	6 393 626	(2 294 796)	4 098 830	6 393 626	(1 529 864)	4 863 762
Total	**734 776 070**	**(180 121 513)**	**554 654 557**	**726 503 517**	**(158 189 504)**	**568 314 013**

Reconciliation of property plant and equipment - 2016

	Opening balance	Additions	Depreciation	Disposals/Corrections	Transfers	Total
Land	53 850 182	-	-	-	-	53 850 182
Buildings	12 826 582	-	(491 569)	(12 557)	-	12 322 456
Plant and Machinery	3 798 697	-	(631 237)	(306 170)	-	2 861 290
Furniture and Fittings	960 960	95 430	(178 155)	(52 229)	-	826 006
Motor Vehicles	2 526 425	1 196 700	(660 169)	(121 100)	-	2 941 856
Office Equipment	2 640 565	69 379	(1 183 662)	(12 156)	-	1 514 126
Computer Equipment	899 286	267 299	(287 424)	(177 298)	-	701 863
Community	7 959 071	-	(352 505)	-	-	7 606 566
Electricity	79 646 281	221 265	(4 295 151)	(1 690 138)	7 544 159	81 426 416
Roads, Pavement, Bridges and Storm Water	389 673 891	-	(19 766 711)	(2 574 487)	-	367 332 693
Work In Progress	8 668 311	18 048 121	-	-	(7 544 159)	19 172 273
Landfill Sites	4 863 762	-	(764 932)	-	-	4 098 830
	568 314 013	**19 898 194**	**(28 611 515)**	**(4 946 135)**	**-**	**554 654 557**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Property Plant and Equipment (continued)

Reconciliation of property plant and equipment - 2015

	Opening balance	Additions	Depreciation	Transfer	Total
Land	53 910 182	-	-	(60 000)	53 850 182
Buildings	13 368 151	-	(491 569)	(50 000)	12 826 582
Plant and equipment	4 273 460	157 215	(631 978)	-	3 798 697
Furniture and fixtures	1 151 412	16 000	(206 452)	-	960 960
Motor vehicles	2 173 187	1 757 689	(1 404 451)	-	2 526 425
Office equipment	758 034	2 944 367	(1 061 836)	-	2 640 565
Computer equipment	882 809	294 200	(277 723)	-	899 286
Community	8 311 576	-	(352 505)	-	7 959 071
Electricity	77 612 868	6 103 046	(4 069 633)	-	79 646 281
Roads, Pavement, Bridges and Storm Water	399 144 223	6 563 324	(19 542 418)	3 508 762	389 673 891
Work In Progress	7 099 516	5 077 557	-	(3 508 762)	8 668 311
Landfill Sites	5 628 694	-	(764 932)	-	4 863 762
	574 314 112	**22 913 398**	**(28 803 497)**	**(110 000)**	**568 314 013**

Pledged as security

The municipality does not have any assets pledged as security:

Assets subject to finance lease (Net carrying amount)

	2016	2015
Office equipment	2 222 467	1 262 296

Useful lives

The useful lives of the assets have been reviewed to ensure that they more accurately reflect the actual expected life spans of the assets within the municipality. In all of the cases, the useful lives were not adjusted as they were found to be reasonable.

Property Register

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Heritage Assets

	2016			2015		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Historical Monuments	170 000	-	170 000	170 000	-	170 000

Reconciliation of heritage assets - 2016

	Opening balance	Total
Historical monuments	170 000	170 000

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Heritage Assets (continued)

Reconciliation of heritage assets - 2015

	Opening balance	Total
Historical monuments	170 000	170 000

6. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 515 530	(1 151 842)	363 688	1 554 827	(891 498)	663 329

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	663 329	15 609	(315 250)	363 688

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	909 057	35 999	(281 727)	663 329

Pledged as security

The municipality does not have any intangible assets pledged as security:

Restricted title

There is no restriction on the title of Intangible Assets.

Intangible Assets have finite useful lives and are amortized over the useful lives

7. Investments in controlled entities

Name of company	Held by	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
Lekwa Teemane Development Agency (Pty) Ltd		100,00 %	100,00 %	20 100	20 100

The carrying amounts of controlled entities are shown at cost, net of impairment losses, if there are any impairment losses.

Controlled entities pledged as security

There is no controlled entity pledged as security.

8. Other financial assets

Designated at fair value

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Other financial assets (continued)

Listed shares	64 633	70 304

Current assets		
Designated at fair value (Sanlam Shares)	64 633	70 304

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Listed Shares This comprises of 1 058 shares held in Sanlam. The shares were valued based on the market value of the shares as at 30 June 2016, which was R61.02/share (2015: R66.54)	64 633	70 304

9. Traffic Fines Receivable

Gross amount receivable	65 697 580	50 753 188
Impairment	(61 980 420)	(47 313 797)
	3 717 160	**3 439 391**

The impairment of the traffic fines is based on a management estimate determined by considering the collection rate of issued fines as well as the success rate of appeals on issued fines

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10. Employee benefit obligations

Defined benefit plan

The defined benefit plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality operates a funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of Bonitas, Keyhealth and SAMWUMED medical aid schemes

The municipality is committed to pay 60% of the members' post employment medical aid contributions up to an amount that is currently capped at R3,618 per month. Under the plan, dependents of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the balance sheet date, the members of the medical aid entitled to the post employment medical scheme subsidy were 123 in service members and 24 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at 30 June 2016 by One Pangea Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(24 706 000)	(22 744 000)
Non-current liabilities	(23 941 000)	(21 983 000)
Current liabilities	(765 000)	(761 000)
	(24 706 000)	**(22 744 000)**

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets and no other disclosure has been done relating to plan assets

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	22 744 000	20 585 000
Benefits paid	(761 000)	(936 000)
Net expense recognised in the statement of financial performance	2 723 000	3 095 000
	24 706 000	**22 744 000**

Net expense recognised in the statement of financial performance

Current service cost	859 000	627 000
Interest cost	1 778 000	1 828 000
Actuarial (gains) losses	86 000	640 000
	2 723 000	**3 095 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	86 000	640 000

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,54 %	7,95 %
Expected rate of return on assets	7,19 %	6,05 %
Expected rate of return on reimbursement rights	8,69 %	7,05 %
Actual return on reimbursement rights	0,78 %	0,84 %

Demographic Assumptions: Normal Retirement Age (65 years); Fully accrued age (63 years); Age between husband and wife (Active members - 4 years, Pensioners - actual age used); Proportion married (Active members - 90%, Pensioners - actual married status used)

Decrement Assumptions: Mortality [Active members: SA(85 - 90), Pensioners: PA(90 - 92.

Continuation percentages: It was assumed that 100% of the deceased pensioners' spouses will continue with their membership.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Employee benefit obligations (continued)

Other assumptions - Sensitivity Analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	3 464 000	3 704 000
Effect on defined benefit obligation	27 863 000	22 187 000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	24 706 000	22 744 000	20 585 000	19 310 000	23 932 000

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Multi-Employer and State Plans

The following are the defined benefit plans that the municipality's employees belong to:
- SAMWU Provident Fund
- Metropolitan Pension Fund
- South African Local Authorities (SALA) Pension Fund
- Municipal Gratuity Fund

These are not treated as defined benefit plans as defined by IAS 19,but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.An amount of R3,846,531 (2015: R3,607,691) was contributed by council in respect of councilors and employees retirement fund. These contributions have been expensed and are included in employee related costs for the year.

In terms of contributions to the fund, the municipality and employee contributions are as follows:
- SALA Pension Fund - Employee (8.6%); Employer (20.78%);
- SAMWU Pension Fund - Employee (8.6%); Employer (18.6%)
- Metropolitan Pension Fund - Employee (8.6%); Employer (18.06%)
- Municipal Gratuity Fund - Employee (8.6%); Employer (18.6%)

Plan Assets

The municipality does not have assets set aside for post employment medical aid benefits fund that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Money Market Investments

This relates to money market placements with various financial services institutions. The money is placed on fixed or call accounts. The investment period averages 60 days. The average interest rates for the current year were 5.83% (2015: 5.45%).

Money Market Investments		
Nedbank (Various Accounts)	80 923	77 827
Absa (Various Accounts)	536 593	1 641 699
	617 516	**1 719 526**

12. Inventories

Consumable stores	-	40 044
Water	91 267	168 074
Stands for sale	7 864	659 000
	99 131	**867 118**

12.1 Non - Financial information - Quantities of Water (Kilolitres)

Stoordam Stand	3 564	3 402
Utlwanang	232	228
Bloemhof Reservoir 1	7 500	7 500
Bloemhof Reservoir 2	8 250	8 125
Tower Reservoirs	450	411
Networks and Pipes	19	19
	20 015	**19 685**

Inventory pledged as security

No inventory was pledged as security for the current and previous year.

13. Trade and other receivables (exchange transactions)

Trade debtors	290 296	91 435
Deposits	29 618	29 618
Other receivables	455 645	96 336
	775 559	**217 389**

Trade and other receivables pledged as security

There were no trade and other receivables pledged as security during the current and prior year.

Possible Fraud Cases

Included in other debtors, is an amount of R255 335 (2015: 255 335) relating to collections that were made the municipality's appointed auctioneer to sell some of the redundant goods and equipment of the municipality. The auction did not, however, deposit the auction proceeds into the municipality's bank account. A case of fraud has been opened.

Other Receivables

Legal Case Debtors		
Total Debtors	452 298	452 298
Total Impairment	(452 298)	(452 298)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Receivables from non-exchange transactions

Consumer debtors - Rates	1 100 800	1 164 546

Receivables from non-exchange transactions not impaired

Some of the other receivables from non-exchange transactions were not considered to be impaired. At 30 June 2016, R1,100,800 (2015: R1,164,546) were not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	699 076	739 559
2 months past due	212 643	224 957
3 months past due	189 080	200 030

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R21,912,132 (2015: R23,547,822) were impaired and provided for.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	23 547 820	22 456 123
Current year movement	(1 635 689)	1 091 697
	21 912 131	**23 547 820**

Rates billed

Assessment Rates (Amount before farmers rebate)	14 847 461	12 789 541

Valuations

Government, residentials and commercial	2 139 264 500	2 084 752 455

15. VAT receivable

VAT	-	5 157 917

The municipality is charged VAT on a cash basis. Thus the VAT 201s are based on amount paid and/or collected. However in the ledger the amounts for output and input VAT are accrued when the transaction occurs.

16. Consumer debtors (exchange transactions)

Gross balances

Electricity	30 390 481	34 398 832
Water	131 105 854	112 192 008
Sewerage	65 347 546	60 087 554
Refuse	50 495 760	46 829 125
Interest (all Service Charges)	99 255 079	78 529 013
Sundry	4 193 139	3 991 676
	380 787 859	**336 028 208**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Consumer debtors (exchange transactions) (continued)

Less: Allowance for impairment		
Electricity	(27 035 212)	(31 079 528)
Water	(123 738 192)	(105 528 047)
Sewerage	(62 221 714)	(57 302 347)
Refuse	(48 080 348)	(44 656 343)
Interest (all Service Charges)	(94 507 316)	(74 957 371)
Sundry Debtors	(3 995 158)	(3 805 935)
	(359 577 940)	**(317 329 571)**

Net balance		
Electricity	3 355 269	3 319 304
Water	7 367 662	6 663 961
Sewerage	3 125 832	2 785 207
Refuse	2 415 412	2 172 782
Interest (all Service Charges)	4 747 763	3 571 642
Sundry	197 981	185 741
	21 209 919	**18 698 637**

Electricity		
Current (0 -30 days)	2 859 622	2 754 625
31 - 60 days	262 360	298 900
61 - 90 days	233 287	265 779
	3 355 269	**3 319 304**

Water		
Current (0 -30 days)	5 099 122	4 810 362
31 - 60 days	1 200 801	981 161
61 - 90 days	1 067 739	872 438
	7 367 662	**6 663 961**

Sewerage		
Current (0 -30 days)	1 985 098	1 768 779
31 - 60 days	603 822	538 023
61 - 90 days	536 912	478 405
	3 125 832	**2 785 207**

Refuse		
Current (0 -30 days)	1 533 936	1 379 851
31 - 60 days	466 589	419 720
61 - 90 days	414 887	373 211
	2 415 412	**2 172 782**

Interest (all Services)		
Current (0 -30 days)	3 015 123	2 268 214
31 - 60 days	917 134	689 941
61 - 90 days	815 506	613 487
	4 747 763	**3 571 642**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Consumer debtors (exchange transactions) (continued)

Other Debtors		
Current (0 -30 days)	121 486	117 957
31 - 60 days	40 491	35 880
61 - 90 days	36 004	31 904
	197 981	**185 741**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(317 329 571)	(248 120 371)
Contributions to allowance	(42 248 369)	(69 209 200)
	(359 577 940)	**(317 329 571)**

Consumer debtors pledged as security

No consumer debtors were pledged as security. .

Subsequent Adjustments

The Gross Balances of the consumer debtors have beeb adjusted by receipts of R854,482 that were received during the year and only identified and allocated after year end and hence could not be adjusted on the Debtors Accounts as at year end.

Fair value of consumer debtors

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

17. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank overdraft	(278 014)	(389 303)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015		30 June 2016	30 June 2015	
Absa BANK - Current Account (Account No. 1810000844)	(110 085)	469 154	-	(608 532)	(787 426)	-
Absa BANK - Current Account (Account No. 181046415)	26 383	25 734	-	26 384	25 734	-
Absa BANK - Current Account (Account No. 4059244467)	299 257	362 389	-	299 157	362 389	-
Absa BANK - Current Account (Account No. 4053056975)	4 978	10 002	-	4 978	10 002	-
Total	**220 533**	**867 279**	**-**	**(278 013)**	**(389 301)**	**-**

18. Other financial liabilities

At amortised cost		
DBSA Loan The loans relates to various amounts advanced by DBSA for infrustructure assets in prior years. The loan amount is Induplum and no longer attracting any interest and is current.	5 719 415	5 719 415

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Other financial liabilities (continued)

Current liabilities		
Development Bank of South Africa	5 719 415	5 719 415

19. Finance lease obligation

Minimum lease payments due		
- within one year	4 297 113	4 756 148
- in second to fifth year inclusive	1 118 305	5 415 418
	5 415 418	10 171 566
less: future finance charges	(3 040 329)	(7 095 947)
Present value of minimum lease payments	**2 375 089**	**3 075 619**
Present value of minimum lease payments due		
- within one year	1 431 373	700 530
- in second to fifth year inclusive	943 716	2 375 090
	2 375 089	**3 075 620**
Non-current liabilities	943 716	2 375 090
Current liabilities	1 431 373	700 530
	2 375 089	**3 075 620**

It is municipality policy to lease certain motor vehicles and equipment under finance leases, denominated in the presentation currency (Rand).

The average lease term was 3-5 years and the average effective borrowing rate was 13% (2015: 13%).

Interest rates are linked to prime at the contract date while some increase by a fixed margin. Motor vehicle leases have fixed repayments and no arrangements have been entered into for contingent rent whilst furniture leases have a variable interest rate. The repayments increase by an average of 13% per year over the three year period.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Defaults and breaches

During the current year, there were no defaults or breaches of any finance leases agreements.

Market risk

The carrying amounts of finance lease liabilities are denominated in Rand.

The fair value of finance lease liabilities approximates their carrying amounts.

20. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Arts, sports & Culture (Utlwanang Library)	600 000	-
Municipal Infrastructure Grant	-	6 185 745
Integrated National Electricity Programme	-	575 933
	600 000	**6 761 678**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

20. Unspent conditional grants (continued)

Movement during the year

	2016	2015
Balance at the beginning of the year	6 761 678	5 365 602
Additions during the year	24 114 000	25 522 000
Income recognition during the year	(29 992 708)	(24 125 924)
Undefined Difference	**(282 970)**	**-**
	600 000	**6 761 678**

See note 28 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

21. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Acturial (Gains)/Loss	Current Year Adjustment	Interest Cost	Current Service Costs	Expected Benefits to be Paid	Total
Environmental rehabilitation	7 299 829	-	395 372	-	-	-	7 695 20
Long Service Awards	3 098 000	(85 000)	-	237 000	265 000	(475 000)	3 040 00
	10 397 829	**(85 000)**	**395 372**	**237 000**	**265 000**	**(475 000)**	**10 735 20**

Reconciliation of provisions - 2015

	Opening Balance	Actuarial (Gains)/Losses	Current Year Adjustment	Interest Costs	Current Service Costs	Expected Benefits to be paid	Total
Environmental rehabilitation	3 788 558	-	3 511 271	-	-	-	7 299 82
Long Service Awards	2 778 000	130 000	-	222 000	234 000	(266 000)	3 098 00
	6 566 558	**130 000**	**3 511 271**	**222 000**	**234 000**	**(266 000)**	**10 397 82**

	2016	2015
Non-current liabilities	10 378 201	9 922 829
Current liabilities	357 000	475 000
	10 735 201	**10 397 829**

Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is supposed to rehabilitate such land upon closure of the dumping site. Provision based on Engineers estimate has been provided.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Provisions (continued)

Long Service Award Provision

The actuarial valuation of the long service award was performed by DT Mureriwa (Fellow of the Actuarial Society of South Africa), on behalf of One Pangea Actuaries (Pty) Ltd.

The long service bonus award provision consists of an obligation to pay out a bonus to qualifying employees in the year the employee attains the required service period. The obligation represents a liability to Lekwa Teemane Local Municipality and the value is represented by the present value of the long service bonus awards expected to be paid in future. The valuation is thus an estimate of the cost of providing long service awards. The actual cost to the municipality will be dependent on the future levels of assumed variables and the demographic profile of the membership. The municipality is required to pay bonuses to its employees for every 5 years of service completed from 10 years to 45 years. This will be in the form of leave days accumulated, that will be encashed immediately.

Valuation assumptions made include Discount Rate of 8.80% (2015: 8.28%), Consumer Price Inflation of 6.51% (2015: 6.01%), Normal Salary Increase of 7.51% (2014: 7.01%) and Net Effective Discount Rate of 1.20% (2015: 1.19%), Mortality SA85-90 (2015: SA85-90)

22. Trade and other payables (exchange transaction)

	2016	2015
Trade payables	229 987 117	204 957 877
Payments received in advance	3 848 180	3 327 244
Unallocated receipts	228 177	495 138
Other payables	1 752 540	2 121 354
Accrued leave pay	4 844 131	4 588 710
Accrued bonus	1 060 769	1 037 490
	241 720 914	**216 527 813**

Fair value of trade and other payables

Trade and other payables have not been fair valued. The main reason for that is the major creditors such as Eskom and Auditor-General of South Africa do charge interest on all outstanding invoices. As such the amount owing is thus the fair value. There is no need to re-discount the amounts so as to determine the fair value. The amount owing to Department of Water Affairs cannot be fair valued as the account has not been settled in over 10 years and there is no indication as to when any payment will be made, and based on this it is therefore inpracticable to fair value the amount.

23. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	64 633	-	64 633
Trade and other receivables from exchange transactions	-	775 559	775 559
Other receivables from non-exchange transactions	-	1 563 101	1 563 101
Consumer debtors	-	21 209 919	21 209 919
	64 633	**23 548 579**	**23 613 212**

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	5 719 415	-	5 719 415

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

. Financial instruments disclosure (continued)

Trade and other payables from exchange transactions	237 915 820	-	237 915 820
Bank overdraft	-	133 092	133 092
Trade and other payables from non-exchange transactions	1 183 074	-	1 183 074
	244 818 309	**133 092**	**244 951 401**

2015

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	70 304	-	70 304
Trade and other receivables from exchange transactions	-	217 389	217 389
Other receivables from non-exchange transactions	-	1 164 546	1 164 546
Consumer debtors	-	18 698 637	18 698 637
	70 304	**20 080 572**	**20 150 876**

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	5 719 415	-	5 719 415
Trade and other payables from exchange transactions	216 527 813	-	216 527 813
Bank overdraft	-	389 303	389 303
Other liability 1	1 101 157	-	1 101 157
	223 348 385	**389 303**	**223 737 688**

Financial instruments in Statement of financial performance

2016

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	296 318	296 318
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1 493 877)	(1 493 877)
Impairment loss	(55 279 303)	(55 279 303)
	(56 476 862)	**(56 476 862)**

2015

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	277 621	277 621
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1 146 187)	(1 146 187)
Impairment loss	(95 972 910)	(95 972 910)
	(96 841 476)	**(96 841 476)**

24. Consumer deposits

Electricity, Water and Town Hall Hire	1 183 074	1 101 157

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Revenue

Service charges	117 401 046	111 037 794
Rental of facilities and equipment	830 968	785 372
Vehicle Monies	1 610 761	1 665 939
Interest on debtors	24 550 613	23 312 642
Fair Value Adjustments	443 876	2 358 832
Sundry Income	1 950 552	2 469 962
Insurance Claims	118 109	3 662 551
Interest Income	299 414	277 621
Property rates	11 987 738	10 113 392
Government grants & subsidies	62 582 136	60 838 878
Fines	18 985 200	30 223 400
Donations received	1 196 700	1 351 509
	241 957 113	**248 097 892**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	117 401 046	111 037 794
Rental of facilities and equipment	830 968	785 372
Vehicle Monies	1 610 761	1 665 939
Interest on debtors	24 550 613	23 312 642
Fair value adjustments	443 876	2 358 832
Sundry Income	1 950 552	2 469 962
Insurance Claims	118 109	3 662 551
Interest received - investment	299 414	277 621
	147 205 339	**145 570 713**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	11 987 738	10 113 392
Transfer revenue		
Government grants & subsidies	62 582 136	60 838 878
Fines, Penalties and Forfeits	18 985 200	30 223 400
Donations received	1 196 700	1 351 509
	94 751 774	**102 527 179**

Nature and type of services in-kind are as follows:

The municipality offers services in kind to Lekwa Teemane Development Agency. These services include (a) use of the municipality's internet services (b) cleaning of the entity's offices by municipal employees (c) printing services (d) use of offices on a no rental basis.

26. Property rates

Rates received

All property types	11 987 738	10 113 392

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

27. Service charges

Sale of electricity	56 299 156	51 318 947
Sale of water	29 452 925	29 467 315
Sewerage and sanitation charges	18 896 009	17 988 372
Refuse removal	12 752 956	12 263 160
	117 401 046	**111 037 794**

28. Government grants and subsidies

Operating grants		
Equitable share	39 611 769	28 708 000
Expanded Public Works Grants (EPWP)	1 072 000	1 236 000
Finance Management Grant	1 675 000	1 600 000
MIG	721 850	526 262
Disaster Management	-	319 690
MSIG	930 000	934 000
Dr Ruth District Municipality	-	8 000 000
Library Grant	400 000	400 000
LG Seta	22 306	4 956
	44 432 925	41 728 908
Capital grants		
Integrated National Electrification Programme	4 434 061	6 634 626
Municipal Infrustructure Grant	13 715 150	12 475 344
	18 149 211	19 109 970
	62 582 136	**60 838 878**

Conditional and Unconditional

Included above are the following grants and subsidies received:

Conditional grants received	30 006 106	32 130 878
Unconditional grants received	32 850 000	28 708 000
	62 856 106	**60 838 878**

Equitable Share

In terms of the Constitution Act, part of this grant is used to subsidise the provision of basic services to indigent community members. Included in the Equitable Share is an amount of R2 132 000 that was witheld from the Equitable Share allocation of the 2014/15 financial year. An amount of R6 762 000 (2015: R4,002,000) was withheld from the current year allocation due to unspent MIG grants.

All registered indigents receive a monthly subsidy of R467 (2015: R415), which is funded from the grant.

Financial Management Grant (FMG)

Current year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 675 000)	(1 600 000)
	-	-

The grant was used for operational and capital purposes, which included payment of interns salaries and other budgetary reforms.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

28. Government grants and subsidies (continued)

Department of Sports, Arts and Culture

Current-year receipts	1 000 000	400 000
Conditions met - transferred to revenue	(400 000)	(400 000)
	600 000	**-**

Conditions still to be met - remain liabilities (see note 20).

The grant is provided for the purpose of the operational expenses of the library's.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	6 185 745	5 035 353
Current-year receipts	14 437 000	14 152 000
Amount withheld	(6 185 745)	-
Conditions met - transferred to revenue	(14 437 000)	(13 001 608)
	-	**6 185 745**

The grant is used for the construction or resealing of road infrastructure within the municipal boundaries.

The unspent portion from 2014/15 was withheld from the 2015/16 allocation of the Equitable share

Integrated National Electricity Programme (INEP)

Balance unspent at beginning of year	575 933	10 559
Current-year receipts	5 000 000	7 200 000
Conditions met - transferred to revenue	(5 575 933)	(6 634 626)
	-	**575 933**

Conditions still to be met - remain liabilities (see note 20).

The grant was used to finance electricity related transactions or projects in the municipal areas, mainly for RDP Houses.

The unspent portion from 2014/15 was withheld from the 2015/16 allocation of the Equitable share

Disaster Management

Balance unspent at beginning of year	-	319 690
Conditions met - transferred to revenue	-	(319 690)
	-	**-**

Conditions still to be met - remain liabilities (see note 20).

Expanded Public Works Grant (EPWP_

Current-year receipts	1 072 000	1 236 000
Conditions met - transferred to revenue	(1 072 000)	(1 236 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 20).

The grant was received from the Department of Co-operative Governance and Traditional Affairs (CoGTA) for the cleaning of the municipal surroundings.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

28. Government grants and subsidies (continued)

Municipal Systems Improvement Grant (MSIG)

Current year receipts	930 000	940 000
Conditions met -transferred to revenue	(930 000)	(940 000)
	-	-

Conditions still to be met - remain liabilities (see note 20).

The grant was meant for system and policy related projects.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

29. Other revenue

Licences and Permits	1 610 761	1 665 939
Interest on Debtors	24 550 613	23 312 642
Fair Value Adjustment	443 876	2 358 832
Sundry Income	1 950 552	2 469 962
Insurance Claims	118 109	3 662 551
	28 673 911	**33 469 926**

Significant amounts included in other revenue arising from exchanges of goods or services are as follows:

Tender Deposit	295 143	180 600
Cemetry Fees	214 326	222 210
Cable Connections	96 775	187 870
	606 244	**590 680**

Significant amounts included in other revenue arising from non-exchange transactions is as follows:

Valuation Certificates	14 058	16 929
Clearance Certificates	1 560	13 167
	15 618	**30 096**

Transfers

Healthy Subsidy	-	28 216
	15 618	**58 312**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

30. General expenses

Advertising	270 749	353 735
Auditors remuneration	2 349 280	2 410 993
Bank charges	322 819	287 424
Consulting and professional fees	9 459 859	4 573 543
Consumables	75 298	63 868
Entertainment	130 822	220 192
Development Agency Assistance	567 344	484 633
Insurance related costs	817 334	1 331 893
Community development and training	246 326	251 175
Magazines, books and periodicals	-	18 322
Motor vehicle expenses	1 305 071	1 224 904
Pest Control & Poison	19 305	-
Licensing	60 637	332 527
Postage and courier	12 965	12 254
Printing and stationery	652 831	783 011
Promotions	54 875	35 817
Protective clothing	247 931	62 771
Indigent subsidy	19 452 696	17 681 815
Staff welfare	-	201 458
Subscriptions and membership fees	23 939	585 821
Telephone and fax	333 039	451 093
Training	687 478	734 089
Subsistence & Travel	1 019 411	2 517 961
Plants and seeds	137 620	-
Stock loss	-	49 239
Number plates	-	11 400
Strategic Planning workshop	73 050	135 863
Stores and material	88 360	45 948
Special programmes	949	276 390
Pauper burials	89 413	52 339
Chemicals	287 779	1 989 188
Municipal accounts	4 831 612	523 976
Painting of traffic signs	403 983	482 620
	44 022 775	**38 186 262**

31. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Depreciation on property, plant and equipment	28 926 765	29 085 224
Employee costs	52 648 850	52 166 219

32. Employee related costs

Basic	24 014 935	25 418 206
UIF	260 886	275 263
Leave pay provision charge	2 716 408	1 999 216
Pension Fund	7 493 185	7 385 256
Overtime	2 754 847	2 210 488
Current Service Costs	1 124 000	861 000
Housing benefits and allowances	1 431 861	804 404
Vehicle Allowance	2 673 232	2 505 078
Telephone Allowances	134 771	219 300
Actuarial (gains)/losses	(207 147)	680 142
Interest Cost - Post Retirement Benefit	2 015 000	2 050 000
	44 411 978	**44 408 353**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

32. Employee related costs (continued)

Remuneration of Municipal Manager

	2016	2015
Annual Remuneration	582 552	194 184
Acting Allowance	-	675 299
Car/Vehicle Allowance	150 000	50 000
Housing Allowance	207 374	69 125
Telephone Allowance	18 000	6 000
	957 926	**994 608**

Remuneration of Chief Finance Officer

	2016	2015
Acting Allowance	437 999	366 218

The municipality has not had a permanent Chief Finance Officer for the whole financial period and only an acting allowance has been paid out

Remuneration of Corporate Services Director

	2016	2015
Annual Remuneration	469 243	468 986
Housing Allowance	190 963	176 697
Car/Vehicle Allowance	120 000	120 000
Telephone Allowance	14 400	14 400
	794 606	**780 083**

Remuneration of Technical Services Director

	2016	2015
Annual Remuneration	494 046	535 837
Housing Allowance	217 653	223 882
Vehicle Allowances	110 000	120 000
Telephone Allowance	13 200	14 400
	834 899	**894 119**

Remuneration of Community Services Director

	2016	2015
Annual Remuneration	482 650	478 957
Housing Allowance	120 000	135 389
Vehicle Allowance	199 896	173 264
Telephone Allowance	14 400	14 400
	816 946	**802 010**

33. Remuneration of councillors

	2016	2015
Mayor's allowance	833 366	758 494
Councillors allowances	3 561 130	3 162 334
	4 394 496	**3 920 828**

In-kind benefits

The Executive Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

34. Debt impairment

	2016	2015
Increase in provision for bad debts	55 741 604	95 972 910

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

35. Investment revenue

Interest revenue		
Bank	38 001	36 715
Money Market Investments	261 413	240 906
	299 414	**277 621**

36. Depreciation and amortisation

Property Plant and Equipment	28 926 765	29 085 224

37. Finance costs

Non-current borrowings	8 851 101	6 980 750
Other interest paid	75 585	549
	8 926 686	**6 981 299**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2015: R 1 146 187).

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

38. Auditors remuneration

Fees	2 349 280	2 410 993

39. Contracted services

Other Contractors	6 086 216	6 805 759

40. Bulk purchases

Electricity	45 744 533	40 230 133
Water	18 084 896	14 616 092
	63 829 429	**54 846 225**

41. Cash generated from operations

Deficit	(26 305 553)	(50 196 653)
Adjustments for:		
Depreciation and amortisation	28 926 765	29 085 224
Loss on Disposal	4 946 135	-
Donations	(1 196 700)	(1 351 509)
Interest on Debtors	(24 550 613)	(23 312 642)
Fair value adjustments	(443 876)	(2 358 832)
Debt impairment	55 741 604	95 972 910
Movements inTraffic Fine Debtors	(277 769)	(2 881 010)
Movements in retirement benefit assets and liabilities	1 962 000	2 159 000
Movements in provisions	337 372	787 987
Other Non Cash Items	(7 347 378)	6 449 967
Changes in working capital:		
Inventories	767 987	(16 931)
Trade and other receivables (exchange transactions)	(558 170)	950 711
Consumer debtors	(42 728 924)	(58 041 974)
Other receivables from non-exchange transactions	63 746	(146 478)
Trade and other payables (exchange transaction)	25 193 101	33 884 967
VAT	11 170 752	(10 375 008)
Unspent conditional grants	(6 161 678)	1 396 076
Movement in Consumer deposits	81 917	104 144
	19 620 718	**22 109 949**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

42. Commitments

Authorised capital expenditure

Approved and Contracted for		
• Property, plant and equipment	4 118 654	10 006 076
Not yet contracted for but authorised by accounting officer		
• Property, plant and equipment	27 836 000	17 084 400
Total capital commitments		
Approved and contracted for	4 118 654	10 006 076
Not yet contracted for and authorised by accounting officer	27 836 000	17 084 400
	31 954 654	**27 090 476**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

43. Contingencies

(a) Jaurum Construction & Projects: The plaintiff alleges that it rendered work for the municipality and did not receive payment. The defendant disputes the claim due to the fact that procurement process was not followed and the services rendered on a property not belonging to municipality. Estimated financial exposure is R230,476.32

(b) T de Kock: Matter relates to Approval of Building Plans. The matter has not been advanced by Mr De Kock or his attorneys since March 2016. Financial exposure cannot be estimated

(c) Bloemhof District Agricultural Union: The defendant disconnected electricity supply. The plaintiff sort recourse from the High Court. Financial exposure cannot be estimated

(c) Some of the municipality's officials have leave days which are more than 48 days. In terms of the Basic Conditions of Employment, a municipal official can only accrue up to a maximum of 48 days. However, there may be reasons for the accrual of more than the prescribed limits. In such cases, on resignation/retirement etc some or all of such employees may be paid their excess leave days. In lieu of this, the municipality has a contingent liability relating to the excess leave days (days above the prescribed 48 days). As at 30 June 2016, the amount relating to the excess days was R3,851,911.

Contingent liabilities - Environmental Act

In terms of the Environmental Act, the municipality is responsible for a number of environmental related transactions that may take place in its jurisdiction. This gives rise to contingent liabilities. However, the nature of such transactions cannot be estimated both financially and the number of occurrence, if any are to occur. Whilst the municipality is not aware of such liabilities, the following are the key transactions:

- contingent liabilities relating to fines that may be imposed by the Department of Environmental Affairs as a result of illegal dumping by the municipal residents.
- penalties relating to raw sewerage or sewerage not properly treated being released to the nearby rivers or dams.
- penalties relating to lack of proper security at the municipal's dumping site or lack of monitoring waste being dumped there as some waste should be dumped in certain specified ways so as to avoid related healthy hazards e.g. medical waste.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

44. Related parties

Relationships	
Key Management	Refer to note 32 and note 33
Controlled entities	Refer to note 7

Apart from the foregoing, there are no other known related party transactions that took place during the year.

Related Party Transactions

	2016	2015
Amounts included in Trade Payable regarding related parties		
Lekwa Teemane Development Agency (Pty) Ltd	350 000	352 244
Amount included in General Expenses		
Lekwa Teemane Development Agency (Pty) Ltd	567 344	484 633

This relates to funding provided to Lekwa Teemane Development Agency (Pty) Ltd as the municpality's contribution towards the agency's operations. The funding was at an arms length basis/transaction.

45. Change in estimate

Property Plant and Equipment

The remaining useful life of certain roads, pavements, bridges and stormwater was estimated in 2014/15 to be 1year. In the current period management have revised their estimate to 2.5 to 7 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 34 767

There is no impact on the cash flow statement (non-cash adjustment)

Computer Equipment

The reaming useful life of certain computer equipment was estimated in 2014/15 to be 1 year. In the current period management have revised their estimate to 2.25 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 1 068

There is no impact on the cash flow statement (non-cash adjustment)

Office Equipment

The remaining useful life of certain office equipment was estimated in 2014/15 to be 1 year. In the current period management have revised their estimate to 2.25 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 10 214

There is no impact on the cash flow statement (non-cash adjustment)

46. Prior Year Errors

Certain comparatives have been corrected due to errors relating to the previous financial year. The following is an analysis of the prior year errors.

.

Land: During the verfication process it was noted that some items of Land should have been transferred to Inventory and a realisable value of zero since this Land is being developed for RDP houses. Furthermore certain Land was disposed of in prior years but were still on the asset register. Some items of Land were also found that were not recorded by the municipality.

Buildings: Items of buildings were found during the verification that were not on the register. Furthermore items of buildings that were on the register could not be located.

46. Prior Year Errors (continued)

Plant and Machinery: During the 2014/2015 year transformers were acquired by the municipality. However these transformers were incorrectly allocated to Plant and machinery instead of Electricity assets.

Furniture and Fittings: During the 2013/2014 financial year the municipality disposed various assets due to certain unrest and these assets were thought to have been destroyed during this unrest. However during the physical verification that was coducted in the 2015/2016 financial year it was noted that the following assets that were included in the disposal of 2013/2014 was still in use and working order.

Motor Vehicles: During the 2014/2015 financial year the Dr. Ruth Segomotsi Mompati District Municipality donated a refuse collection truck to the municipality. However this truck was not recorded in the asset register and was not included as part of the Property, Plant and Equipment Note. This resulted in the cost, depreciation, accumulated depreciation and the carrying value for motor vehicles been understated during the 2014/2015 financial year.

Office Equipment: During the 2014/2015 year certain office equipment reached the end of their lease term and no long met the definition of Property, Plant and equipement however these items were still disclosed in the Cost and Accumulated Depreciation for office equipment.

Computer Equipment : During the 2013/2014 financial year the municipality disposed various assets due to certain unrest and these assets were thought to have been destroyed during this unrest. However during the physical verification that was coducted in the 2015/2016 financial year it was noted that the following assets that were included in the disposal of 2013/2014 was still in use and working order.

Community Assets: Items of were found during the verification that were not on the register. Furthermore items that were on the register could not be located.

Electricity: During the 2014/2015 year transformers were acquired by the municipality. However these transformers were incorrectly allocated to Plant and machinery instead of Electricity assets. Furthermore certain electricity meters that should have been expensed in prior periods were incorrectly capitalised to Plant and Machinery during the 2013/2014 financial year. Certain new items were also found that were not recorded in the asset register previously. Items of electricty were also written off that could not be located.

Roads, pavements, bridges and stormwater: Items of were found during the verification that were not on the register. Furthermore items that were on the register could not be located.

Work In Progress: During the 2014/2015 financial year projects as well as financial periods prior to the 2014/2015 year that were completed however they were no transfers done from the Work in progress balance to the respective classes of Property Plant and equipmentDuring the 2015/2016 financial year as part of the asset verification process 3 items were located that meet the definition of Heritage assets. However it was noted that these assets were not included on the asset register nor were they accounted for as heritage assets.

VAT Receivable: Adjustment relates to VAT on sundry income that was not initially accounted for.

Trade and Other Payables: Adjustment relates to understatement of Expenditure in the Ledger

Consumer Debtors: Adjustment relates to the recomputation of the debtors impairement.

Sundry Income: Adjustment relates to VAT that was not initally accounted for

Licenses and Permits: Adjustment relates to VAT that was not initally accounted fort

Employee Cost: Adjustment relates to VAT on susbsistence and travelling that was originally not accounted for

Interest on Creditors: Adjustment relates to interest on the auditor General account that was not accounted for.

Bulk Purchases: The adjustment relates to wheeling/ 3rd party wheeling charges that were originally not accounted for.

Contracted Services: Adjustment relates to VAT that was not initally accounted for.

Debt Impairement: Adjustment relates to the recomputation of the debtors impairement.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

46. Prior Year Errors (continued)

General Expenses: Adjustment relates to prior year advertising expenses accounted for in the wrong accounting period

Depreciation: Adjustment relates to restatement of Property Plant and Equipment

Statement of financial position		
Land	-	(94 122 364)
Buildings	-	5 817 715
Plant and Equipment	-	(299 962)
Furniture and Fittings	-	5 086
Motor Vehicles	-	1 167 958
Computer Equipment	-	104 139
Community	-	(2 189 793)
Electricity	-	7 068 179
Roads, Pavement, Bridges and Storm Water	-	3 039 801
Work In Progress	-	(4 511 082)
Heritage Assets	-	170 000
Other receivable from non- exchange transactions	-	(1 016 223)
Consumer Debtors	-	(7 733 323)
VAT receivable	-	(1 077 565)
Trade and Other Payables	-	22 344
Statement of Financial Performance		
Property Rates	-	2 424 936
Service Charges	-	3 356 718
License and Permits	-	233 232
Sundry Income	-	345 795
Insurance Claims	-	512 757
Donations received	-	(1 351 509)
Remuneration of Councilors	-	(333 426)
Finance Cost	-	62 114
Bulk Purchases	-	(28 114)
Contracted Services	-	43 100
Debt Impairement	-	8 705 035
General Expenses	-	49 500
Depreciation	-	768 562
Contracted Services	-	(28 587)
General expenditure	-	(392 619)
	-	**14 367 494**

Notes to the Annual Financial Statements

Figures in Rand		2016	2015

47. Risk management

General Objectives, Policies and Processes

The municipality's activities expose it to a variety of financial risks namely market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Council has the overall responsibility for the determination of the municipalitys' risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Accounting Officer. The Accounting Officer receives regular reports from the Directors through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The municipality's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee. The overall objective of Council is to set policies that seek to reduce risks as far as possible without unduly affecting the Municipalitys' competitiveness and flexibility. Further details regarding these policies are set out below:

The gearing ratio at 2016 and 2015 respectively were as follows:

Total borrowings			
Finance lease obligation	19	2 375 089	3 075 620
Other financial liabilities	18	5 719 415	5 719 415
		8 094 504	**8 795 035**
Less: Cash and cash equivalents	17	(278 014)	(389 303)
Net debt		8 372 518	9 184 338
Total equity		320 895 312	454 242 939
Total capital		**329 267 830**	**463 427 277**

Market Risk

Market risk arises from the Municipalitys' use of interest bearing and tradable financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk.

The Municipality is exposed to cash flow interest rate risk from long-term borrowings at variable rate. It is currently the municipality policy that all of the municipalitys' borrowings (including short-term overdraft facilities and finance lease payables) are at floating rate of borrowings. Further, all of the municipalitys' borrowings are denominated in South African Rands. Although Council accepts that this policy neither protects the municipality entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The municipality analyses the interest rate exposure on a regular basis, at minimum annually. However, sensitivity analysis where simulations are used is not performed. The level of the municipalitys borrowings does not warranty performance of this (cost benefit analysis). Further, the municipality does not have the competences to perform such analysis and also believes that the non-performance of such analysis does not negatively expose it to huge interest rate risk exposure. Thus, because simulations are not performed the impact on surplus or deficits and net assets of any basis-point shift (based on the maximum reasonable expectation of changes in interest rates) cannot be determined.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

47. Risk management (continued)

Liquidity risk

Liquidity risk arises from the municipalitys' management of working capital, finance charges and principal repayments on its debt instruments. It is the risk that the municipality will encounter difficulty in meeting its financial obligations as they fall due. The municipalitys' policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period long enough to cover the obligations. The municipality also seeks to reduce liquidity risk by using floating interest rates (and hence cash flows) on all its long-term borrowings. This is further discussed in the 'interest rate risk' section. Council receives cash flow projections on a regular basis as well as information regarding cash balances and (as noted above) the value of the municipalitys' investments. At the end of the financial year, these projections indicated that the municipality expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down on its agreed R1, 000,000 overdraft facility. However, in the prior period, the municipality did not have enough reserves to meet all its obligations. The liquidity risk of the municipal entity is also managed by the parent municipality. Where the municipal entity need facilities, approval must be sought from the Accounting Officer. Where the amount of the facility is above a certain level, agreement of the board is needed.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For trade payables, they are due and payable on receipt of the invoice. Thus, in the absence of any other arrangements, all balances due as at year end are disclosed in the "Less than 1 Year" column.

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The municipality is mainly exposed to credit risk from credit sales and placement with financial institutions. It is the municipalitys' policy to assess the credit risk of new counterparts, where possible, before entering contracts. Due to the nature of most our customers, credit limits and ratings for such customers cannot be done.

To mitigate some of the credit risks relating to our consumers, disconnections and restricting the flow of water are used as mechanisms to encourage the consumers to settle their debt. Consumers' accounts are monitored on a monthly basis. In terms of the existing legislation, the municipality has limited options in this regards.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only reputable institutions are used. The municipalty does not, however, request for credit ratings.

The municipality does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated. Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in Note 14 and Note 16.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Other financial assets	64 633	70 304
Trade and other receivables (exchange transactions)	775 559	217 389
Receivables from non-exchange transactions	1 563 101	1 164 546
Consumer debtors	21 209 919	18 698 637
Money market investments	854 125	1 719 326
Cash and cash equivalents	-	867 278

Cash and cash equivalents: A significant amount of cash is held with ABSA, who are the municpality's main bankers.

48. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had a deficits of R26,305,553 (2015: R50,196,653) and current liabilities exceeded current assets by R230,765,880 (2015: R201,101,268) during the current year. This poses a greater doubt on the municipality's ability to realise its assets and discharge its liabilities in the normal course of business.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

48. Going concern (continued)

In order to mitigate these negative effects, the municipality is in the process of implementing the following measures, some of which the work has commenced:

- Appointed consultants to perform Revenue Enhancement Strategies and Installation of Pre-paid Automatic Meter Reading, whose results are expected to yield positive results. The consultants have already commenced their work. Further, the appointment of Debt Collectors during the ensuing financial period will further enhance the municipality's mitigating measures regarding these going concern challenges.
- Implementing cost reflective prices and cost cutting measures.;
- Implementation of the new valuation roll from the 1st of July 2017. This will greatly improve the municipality's income stream as property rates will be levied on market values.
- Recognition of the municipality's Investment Properties at the current market values based on the new valuation roll in the ensuing financial period. This will greatly improve the balance as these assets are recognised at normal/historical amounts, some of which were determined more than 15 years ago.
- Unbundling and valuation of infrastructure in the ensuing financial period.
- Continued support from National Treasury and other government departments (national or provincial) as the municipality is a public entity. This will be further coupled by the MISA Programme, which has already commenced.

49. Events after the reporting date

The term for the current Councillors ended on 5th of August 2016 in terms of section 26 of the Municipal Structures Act. .

The contract for the Technical Services Director was terminated with effect from 19 July 2016.

50. Unauthorised expenditure

Opening Balance	60 992 619	60 992 619

There was no unauthorised expenditure for the current year, the amount disclosed is the balance carried over from the 2013/14 Financial year.

Unauthorised expenditure has not yet been condoned by Council. A full report will be submitted to Council for considerations. Council recommendations will then taken into account when the deliberations and/or investigations are concluded.

51. Fruitless and wasteful expenditure

Opening Balance	19 591 386	13 818 388
Interest on late payment	5 748 877	5 772 998
	25 340 263	**19 591 386**

Interest on Late Payment: This relates to interest charged on late payments of VAT to SARS and other creditors. Measures are in place to avoid these charges in future.

Fruitless and wasteful expenditure will be presented to Council for consideration of condement.

52. Irregular expenditure

Balance at the Beginning of the year	59 794 413	47 577 444
Add: Irregular Expenditure - current year	1 567 868	12 216 969
	61 362 281	**59 794 413**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

52. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Aqua Agri Solutions	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	590 323
Hermans PC Workshop	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	307 330
Elegant Home	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	92 800
Nooitgedacgt Sandwerke	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	64 296
DCH Engineering	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	55 711
First Mech	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	54 070
Other General Expenses with various suppliers	No disciplinary measures have been taken. The transactions have been presented to Council for condonement.	403 338
		1 567 868

Irregular expenditure will be presented to National Treasury and Council for consideration of condement.

53. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

	2016	2015
Electricity (kilowats per hour)	15 520 775	16 434 971
Purified Water (kilolitres)	1 985 587	2 552 522
	-	-

Distribution losses for electricity relates to unaccounted for electricity. This mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. During the year 15 520 775 (2015: 16 434 971) kilowatts per hour were lost. This represented 30% (2015: 32%) of the electricity purchases for the year, which has been included in bulk purchases.

Purified Water: This is lost during distribution processes to the consumers. Most of this is caused by burst pipes as greater component of the municipality's water infrastructure network is relatively old. During the year, the losses amounted to 1 985 587 (2015: 2 552 522) megalitres, which constitutes about 23% (2015: 23%) of the purified water.

Whilst this is not a desirable feature, the level of the distribution losses are well within the acceptable norms

Distribution Losses in Rand Values	**2016**	**2015**	**Total**
Water	7 227 537	22 309 117	29 536 654
Electricity	12 075 163	21 649 672	33 724 835
	19 302 700	**43 958 789**	**63 261 489**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	13 100 704	10 480 347
Current year fees	2 439 279	3 300 055
Interest	1 118 199	754 866
Amount paid	(2 699 088)	(1 434 564)
	13 959 094	**13 100 704**

PAYE and UIF

Opening balance	6 262 600	3 512 105
Current year charges	5 841 882	5 979 530
Amount paid	(8 976 444)	(3 229 035)
	3 128 038	**6 262 600**

Pension and Medical Aid Deductions

Opening balance	429 367	-
Current year deductions	4 826 982	5 075 127
Amount paid - current year	(4 816 671)	(4 645 760)
	439 678	**429 367**

VAT

VAT receivable	-	5 157 917
VAT payable	6 012 835	-
	6 012 835	**5 157 917**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor I. M. Snyman	1 553	-	1 553
Councillor G. Pencil	3 016	9 462	12 478
Councillor K M Segalo	1 716	-	1 716
Councillor D J Muller	1 485	-	1 485
Councillor F. Moleta	2 545	27 518	30 063
Councillor P. Modise	1 715	-	1 715
Councillor M.I. Mabala	23 911	21 529	45 440
	35 941	**58 509**	**94 450**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor K. Palagangwe	621	-	621
Councillor K. Palagangwe	242	-	242
Councillor T. Mokgosi	2 372	-	2 372
Councillor A. Buys	7 177	186 313	193 490
Councillor G. Pencil	2 063	19 160	21 223
Councillor J. Segola	1 672	9 302	10 974
Councillor F. Moleta	1 717	41 638	43 355
Councillor J Joseph	1 581	1 581	3 162
Councillor M Majikela	1 037	4 184	5 221
Councillor P. Modise	223	-	223
Councillor Snyman	1 107	-	1 107
Councillor K Moepeng	9 879	9 424	19 303
Councillor I. Mabala	9 130	34 723	43 853
	38 821	**306 325**	**345 146**

54. Utilisation of Long-term liabilities reconciliation

	2016	2015
Long-term liabilities raised	5 719 415	5 719 415

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Due to the municipality's cashflow challenges, no cash has been set aside to repay long-term liabilities.

55. Deviation from supply chain management regulations

The municipality entered into a contract with Mhlopha Security Services cc to provide security services to all municipal properties (both in Bloemhoef and Christiana) from the 1st of December 2012 to 30 November 2014. The company will also install security cameras and alarm systems in the main municipal buildings in Christiana and Bloemhoef. The deviation from supply chain management policy was approved by the Accounting Officer in terms of the MFMA and SCM Guidelines.

56. Assets subject to restrictions

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

57. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.

58. Key Assumptions and Estimates Used

The key assumptions and estimates used are as follows: (1) Long Service Award: A number of valuation variables were used. Should these valuation assumptions be different from the actual variables, the provision for Long Service Award may be different from the one disclosed. (2) Post Retirement Medical Aid Benefit Obligation: By its nature, estimating the Post Retirement Medical Aid Benefit requires use of estimates and significant judgement. This was the case in the computation of the relevant obligation. The key assumptions used are disclosed in note 9. (3) Amounts based on the transactions or balances relating to those disclosed under Accounting Policy 1.1.

59. Fraud Cases

A municipal employee working in the revenue department is alleged to have tempered with the system and removed the basic electricity charge from his account. This resulted in the employee not being billed the basic charge for the year which is a monthly charge of R132 this resulted in the employee not billing some of the monthly basic charges, with a monthly charge of R132 and an estimated annual amount of R1,584, investigations are currently underway. The amount is however considered immaterial an d as such no adjustment has been made

Lekwa Teemane Local Municipality
Appendix A

Schedule of external loans as at 30 June 2016

	Loan Number	Redeemable	Balance at 30 June 2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2016 Rand	Rand	Rand
Annuity Loans			-	-	-	-	-	-
DBSA			5 719 415	-	-	5 719 415	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			5 719 415	**-**	**-**	**5 719 415**	**-**	**-**
Lease Liability								
	80561690	2016-01-01	249 153	-	249 153	-	-	-
ABSA	82846927	01/09/2015	37 509	-	37 509	-	-	-
BSA	82846803	01/09/2015	19 584	-	19 584	-	-	-
BLAQ.M		08/11/2017	2 769 373	-	394 284	2 375 089	-	-
			-	-	-	-	-	-
			3 075 619	**-**	**700 530**	**2 375 089**	**-**	**-**
			-	**-**	**-**	**-**	**-**	**-**
			-	**-**	**-**	**-**	**-**	**-**
			-	**-**	**-**	**-**	**-**	**-**
Lease liability			**-**	**-**	**-**	**-**	**-**	**-**
Annuity loans			**-**	**-**	**-**	**-**	**-**	**-**
			-	**-**	**-**	**-**	**-**	**-**
Total external loans								
Annuity Loans			-	-	-	-	-	-
			5 719 415	-	-	5 719 415	-	-

Lekwa Teemane Local Municipality
Appendix A

Schedule of external loans as at 30 June 2016

	Loan Number	Redeemable	Balance at 30 June 2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2016 Rand	Rand	Rand
Lease Liability			3 075 619	-	700 530	2 375 089	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			8 795 034	**-**	**700 530**	**8 094 504**	**-**	**-**

Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Under Construction Rand	Transfers Rand	Disposals Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Under Construction Rand	Transfers Rand	Depreciation Rand	Disclosure Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Community Services	20 972 945	1 196 700	-	-	(4 057 709)	-	**18 111 936**	(9 819 894)	-	-	(1 190 677)	3 784 366	**(7 226 205)**	10 885 731
Corporate Services	71 379 110	51 435	-	-	(124 741)	-	**71 305 804**	(3 375 928)	-	-	(1 046 382)	86 130	**(4 336 180)**	66 969 624
Budget and Finance	2 735 803	196 263	-	-	(183 996)	-	**2 748 070**	(1 331 046)	-	-	(579 234)	175 506	**(1 734 774)**	1 013 296
Municipal Manager/Council	2 369 326	-	-	-	(301 972)	-	**2 067 354**	(736 226)	-	-	(512 386)	176 359	**(1 072 253)**	995 101
Municipal Manager	278 302	102 525	-	-	-	-	**380 827**	(73 228)	-	-	(77 103)	-	**(150 331)**	230 496
Technical Services	621 654 546	318 758	19 172 273	7 544 160	(6 441 586)	-	**642 248 151**	(143 744 678)	-	-	(25 520 983)	1 941 508	**(167 324 153)**	474 923 998
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	719 390 032	**1 865 681**	**19 172 273**	**7 544 160**	**(11 110 004)**	**-**	**736 862 142**	**(159 081 000)**	**-**	**-**	**(28 926 765)**	**6 163 869**	**(181 843 896)**	**555 018 246**
Municipal Owned Entities														
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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Total														
Municipality	719 390 032	1 865 681	19 172 273	7 544 160	(11 110 004)	-	**736 862 142**	(159 081 000)	-	-	(28 926 765)	6 163 869	**(181 843 896)**	555 018 246
Municipal Owned Entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2016

Cost/Revaluation							Accumulated Depreciation						
Opening Balance Rand	Additions Rand	Under Construction Rand	Transfers Rand	Disposals Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Under Construction Rand	Transfers Rand	Depreciation Rand	Disclosure Rand	Closing Balance Rand	Carrying value Rand
719 390 032	1 865 681	19 172 273	7 544 160	(11 110 004)	-	736 862 142	(159 081 000)	-	-	(28 926 765)	6 163 869	(181 843 896)	555 018 246

LEKWA TEEMANE LOCAL MUNICIPALITY
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
Equitable Share	National Treasury	17 749	5 731	14 000	-	-	-	9 370	9 370	9 370	9 370	-	-	-	-	-	Unsettled Eskom Debt	Yes	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		Yes	
Municipal Infrustructure Grant	National Treasury	10 008	4 000	429	-	-	-	2 753	4 777	5 057	1 128	-	-	-	-	-		Yes	
Finance Management Grant	National Treasury	1 675	-	-	-	-	-	1 022	125	184	345	-	-	-	-	-		Yes	
Municipal Systems Improvement Grant	National Treasury	930	-	-	-	-	-	63	19	291	556	-	-	-	-	-		Yes	
Intergrated National Electrification Programme	National Treasury	1 000	4 000	-	-	-	-	368	3 819	530	-	-	-	-	-	-			
EPWP	National Treasury	429	322	321	-	-	-	320	236	301	215	-	-	-	-	-			
Library Grant	Department of Arts Sport and Culture	1 000	-	-	-	-	-	-	200	100	100	-	-	-	-	-			
District Equitable Share	Dr Ruth Mompati District Municipality	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		32 791	14 053	14 750	-	-	-	13 896	18 546	15 833	11 714	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.